

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3051-02
Bill No.: HB 1227
Subject: Revenue Dept. Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: January 21, 2010

Bill Summary: Would increase the Missouri dependency exemption from \$1,200 to \$2,000 for each qualified dependent claimed by a resident.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$62,600,000)	(\$62,600,000)	(\$62,600,000)
Total Estimated Net Effect on General Revenue Fund	(\$62,600,000)	(\$62,600,000)	(\$62,600,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Department of Revenue (DOR)** assume this proposal would not have a fiscal impact on DOR; however, DOR officials anticipate that modifications to individual income tax forms and the Missouri Individual Income Tax System (MINITS) would be required. DOR officials assume this legislation would have a large, negative impact on total state revenues. There were 1,860,134 dependents claimed on 1,034,297 returns for 2008, and 1,913,729 dependents claimed on 1,066,120 returns for 2007. Based on the 2008 filing, this proposal would result in an approximate reduction of \$75 million dollars in tax revenues.

Officials from the **University of Missouri, Economic and Policy Analysis and Research Center (EPARC)** stated that the proposal, if enacted, would increase the Missouri dependency exemption from \$1,200 to \$2,000. EPARC prepared a simulation of the proposal using state income tax data for 2008 returns (FY 2009) and calculated the proposed changes would reduce Missouri personal income tax from the baseline of \$4,982.2 million to \$4,919.6 million, a reduction of \$62.6 million.

Although they did not respond to our request for information, officials from the **Office of Administration, Division of Budget and Planning (BAP)** assumed that a similar proposal in the previous session (HB 646, LR 1472-01, 2009) would not result in additional costs or savings to their organization.

ASSUMPTION (continued)

BAP officials stated that the proposal would increase the personal dependency exemption from \$1,200 to \$2,000. According to the 2009 Tax Expenditure Report published by the State & Regional Fiscal Studies Unit at the University of Missouri Columbia, a total of \$101.4 million in personal dependency exemptions are forecasted for 2010. This proposal would increase the total taxpayer exemptions by \$76.0 million ($\$101.4\text{M} * \$2,000 \div \$1,200 = (\$169.0\text{M} - \$101.4\text{M}) = \67.6 million). The proposal could therefore reduce general and total state revenues by \$67.6 million.

Oversight will use the EPARC estimate of revenue reduction..

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
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GENERAL REVENUE FUND

Revenue reduction

Increase in personal exemptions	<u>(\$62,600,000)</u>	<u>(\$62,600,000)</u>	<u>(\$62,600,000)</u>
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**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

	<u>(\$62,600,000)</u>	<u>(\$62,600,000)</u>	<u>(\$62,600,000)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation would increase the personal exemptions allowed individual income tax returns.

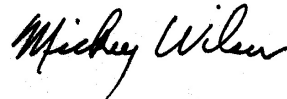
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of state
Department of Revenue
University of Missouri
Economic and Policy analysis Research Center

NOT RESPONDING

Office of Administration
Division of Budget and Planning



Mickey Wilson, CPA
Director
January 21, 2010